



# Fentura Financial Inc. ---

To Our Shareholders:

During the quarter which ended June 30, 2009, Fentura Financial, Inc. experienced a net loss of \$15,364,000 or (\$6.99 per share) as compared to a loss of \$2,168,000 or (\$1.00 per share) for the same period in 2008. The second quarter results were heavily impacted by:

- o The establishment of a \$6,617,000 valuation allowance against deferred taxes assets
- o Provision for loan losses of \$7,711,000
- o The write-off of the remaining investment in an Arizona bank of \$874,000

A significant portion of the loss for the quarter related to the establishment of a non cash deferred tax valuation allowance. The deferred tax valuation is essentially a reserve against future tax deductions. The recent financial performance of the company and the inability to predict future operating profits triggered accounting rules that require these assets be offset by a reserve. The charge does not affect the company's liquidity position and is excluded from regulatory capital calculations. In future periods improved financial performance may allow us to reverse the valuation allowance through our income statement and reestablish the tax asset on our balance sheet.

The loan loss provision was a result of action by the boards of directors at all three banks to strengthen the reserve for future loan losses in light of continued deterioration of asset quality and collateral values as borrowers find it increasing difficult to meet the repayment terms and requirements of their loans.

While the capital depletion connected with the substantial loss for the quarter was significant, it is important to note that all three banks remain adequately capitalized. The previously announced sale of Davison State Bank, which is expected to close during the third quarter, will redeem capital for redeployment at West Michigan Community Bank and The State Bank. This action will strengthen the capital position of the banks. In addition, the board and management team continue to evaluate other strategic alternatives to strengthen the financial condition of the company. Total assets declined approximately \$10 million during the past year reflecting efforts to eliminate problem loans and reduce the reliance on high cost or brokered deposits.

Clearly, the financial challenges we face are formidable but not insurmountable. Your boards of directors and management teams remain committed to stabilizing company performance and aggressively addressing asset quality and credit problems. Economists are now suggesting that the recession is likely to end during the third or fourth quarter. Management believes that as the economy turns around, and real property values stabilize, asset quality will improve and the need for extraordinary loan loss provision will decline. When these events occur, we believe that our overall financial performance will improve significantly.

During the second quarter, former Davison State Bank and Fentura Director Sheryl Stephens stepped down from her director position for personal and professional reasons. We thank her for four years of dedicated service to our company.

As always, we appreciate your continued support of Fentura Financial, Inc. and the subsidiary banks.

Sincerely,

Donald L. Grill  
President & CEO